

SNCB SECURITIES INC.

Audited Financial Statements

**Years ended December 31, 2000 and 1999
with Report of Independent Auditors**

SNCB Securities Inc.

Audited Financial Statements

Years ended December 31, 2000 and 1999

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Report of Independent Auditors

The Board of Directors and Shareholder
SNCB Securities Inc.

We have audited the accompanying statements of financial condition of SNCB Securities Inc. (the "Company") as of December 31, 2000 and 1999, and the related statements of operations, shareholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in notes 1 and 3 to the financial statements, certain operating agreements with the Company's Parent have been terminated and the Company ceased operations. Accordingly, the December 31, 2000 statement of financial condition has been prepared on the liquidation basis of accounting rather than the going-concern basis.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SNCB Securities Inc. at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States applied on the basis described in the preceding paragraph.

Ernst & Young LLP

January 31, 2001

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the Southern District of New York

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SNCB Securities Inc.

Statements of Financial Condition

	December 31	
	2000	1999
Assets		
Current assets:		
Cash and cash equivalents	\$ 283,273	\$ 351,053
Due from affiliate	95,289	13,256
Miscellaneous receivables	14,182	63,934
Deferred tax asset	10,424	-
Prepaid income taxes	-	3,642
Prepaid expenses and other current assets	-	29,756
Total current assets	<u>403,168</u>	<u>461,641</u>
Fixed assets:		
Office equipment	-	52,893
Furniture and fixtures	-	80,348
Leasehold improvements	-	7,355
	<u>-</u>	<u>140,596</u>
Less accumulated depreciation and amortization	-	91,000
	<u>-</u>	<u>49,596</u>
Total assets	<u>\$ 403,168</u>	<u>\$ 511,237</u>
Liabilities and shareholder's equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 47,109	\$ 113,232
Income tax payable	6,264	-
Deferred tax liability	-	9,150
Total current liabilities	<u>53,373</u>	<u>122,382</u>
Shareholder's equity:		
Common stock, \$.01 par value; 2,500 shares authorized, 2,000 shares issued and outstanding	20	20
Additional paid-in capital	349,980	349,980
(Accumulated deficit)/Retained earnings	(205)	38,855
Total shareholder's equity	<u>349,795</u>	<u>388,855</u>
Total liabilities and shareholder's equity	<u>\$ 403,168</u>	<u>\$ 511,237</u>

See accompanying notes.

SNCB Securities Inc.

Statements of Operations

	Year ended December 31	
	2000	1999
Revenues:		
Advisory and handling fees	\$ 768,364	\$ 813,639
Interest	14,434	7,511
Other income	728	6,109
Total Revenues	783,526	827,259
Expenses:		
Payroll and related costs	528,823	464,430
Occupancy and equipment	142,252	210,280
Professional fees	38,450	32,185
Loss on abandonment of fixed assets	28,839	-
Communications	9,452	17,959
Other	22,808	27,200
Total Expenses	770,624	752,054
Income before income taxes	12,902	75,205
Provision for income taxes	13,107	36,350
Net (loss)/income	\$ (205)	\$ 38,855

See accompanying notes.

SNCB Securities Inc.

Statements of Changes in Shareholder's Equity

	Common Stock	Additional Paid-In Capital	Retained Earnings/ (Accumulated Deficit)	Total
Balance at December 31, 1998	\$ 20	\$ 349,980	\$ 57,796	\$ 407,796
Net income			38,855	38,855
Dividend paid			(57,796)	(57,796)
Balance at December 31, 1999	20	349,980	38,855	388,855
Net loss			(205)	(205)
Dividend paid			(38,855)	(38,855)
Balance at December 31, 2000	\$ 20	\$ 349,980	\$ (205)	\$ 349,795

See accompanying notes.

SNCB Securities Inc.

Statements of Cash Flows

	Year ended December 31	
	2000	1999
Operating activities		
Net (loss)/income	\$ (205)	\$ 38,855
Adjustments to reconcile net (loss)/income to net cash (used in) provided by operating activities:		
Depreciation and amortization	8,172	15,735
Loss on abandonment of fixed assets	28,839	-
Changes in operating assets and liabilities:		
Due from affiliate	(82,033)	23,309
Miscellaneous receivables	49,752	(33,752)
Prepaid income taxes	3,642	9,350
Deferred tax asset	(10,424)	-
Prepaid expenses and other current assets	29,756	(102)
Accounts payable and accrued expenses	(66,123)	44,945
Income tax payable	6,264	-
Deferred tax liability	(9,150)	9,150
Net cash (used in) provided by operating activities	<u>(41,510)</u>	<u>107,490</u>
Investing activities		
Purchase of fixed assets	(4,817)	-
Proceeds from sale of fixed assets	<u>17,402</u>	-
Net cash provided by investing activities	<u>12,585</u>	-
Financing activities		
Dividends paid	(38,855)	(57,796)
Net cash used in financing activities	<u>(38,855)</u>	<u>(57,796)</u>
Net increase/(decrease) in cash and cash equivalents	(67,780)	49,694
Cash and cash equivalents at beginning of year	351,053	301,359
Cash and cash equivalents at end of year	<u>\$ 283,273</u>	<u>\$ 351,053</u>

See accompanying notes.

SNCB Securities Inc.

Notes to Financial Statements

December 31, 2000

1. Organization

SNCB Securities Inc. ("SNCB"), incorporated in Delaware, is ultimately wholly-owned by The National Commercial Bank ("NCB") through a United Kingdom subsidiary, SNCB Securities Limited. SNCB was formed, in part, for the purpose of conducting limited activities in the U.S. for or on behalf of NCB with respect to the management services performed by NCB for certain off-shore investment funds which services were previously performed by the Investment Management Division of the New York branch office of NCB. These activities include identifying and developing investment products for NCB to market outside the U.S., assisting NCB in evaluating fund advisors and performing some limited administrative and clerical support services for NCB on behalf of the investment funds. In addition, SNCB may provide investment advisory services to unaffiliated offshore third parties.

As of December 31, 2000, SNCB has ceased operations and is in the process of liquidation.

2. Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. Substantially all cash and cash equivalents are held in one financial institution.

Fixed Assets

SNCB depreciates its furniture and fixtures using the straight-line method over the estimated useful lives of ten years. Office equipment is depreciated using a Modified Accelerated Cost Recovery System over the estimated useful lives of five years. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the remaining term of the lease.

SNCB has recognized a \$28,839 loss on the abandonment of fixed assets due to ceasing its operations as of December 31, 2000.

SNCB Securities Inc.

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

3. Related Party Transactions

SNCB has a Services Agreement with NCB. In accordance with this agreement, SNCB acts as a consultant to assist and advise NCB on matters generally relating to the duties and obligations of NCB under Administrative Service Agreements it has with various securities and commodities investment funds in the British Virgin Islands. Under the Services Agreement, SNCB receives \$350,000 annually or the aggregate of SNCB's specified costs plus 10%, whichever is greater. SNCB also has a Realty Services Agreement with NCB. In accordance with this agreement, SNCB acts as consultant to assist and advise NCB regarding its obligations under Realty Administrative Agreements it has with various real estate related investment funds in the British Virgin Islands. Under the Realty Services Agreement, SNCB receives \$300,000 annually or the aggregate of SNCB's specified costs plus 10%, whichever is greater.

In 2000 and 1999, SNCB earned approximately \$800,000 under these agreements, of which approximately \$89,600 and \$13,000 was unpaid at December 31, 2000 and 1999, respectively. These amounts are included in the due from affiliate account in the accompanying statements of financial condition.

Effective December 31, 2000, the Services and the Realty Services Agreements with NCB were terminated.

SNCB Securities Inc.

Notes to Financial Statements (continued)

4. Commitments

SNCB rents office space according to a non-cancelable operating lease. Future minimum rentals as of December 31, 2000 are as follows:

Year ending December 31:	
2001	\$ 57,386
2002	59,107
2003	60,880
2004	62,707
2005	10,502
	<u>\$ 250,582</u>

The agreement contains an escalation clause requiring SNCB to pay additional rent for increases in real estate taxes and operating expenses over base year amounts. Rent expense for the years ended December 31, 2000 and 1999 was approximately \$64,000 and \$158,000, respectively.

As of December 31, 2000, employees of SNCB have vacated this office space. Included in the occupancy and equipment expense in the statement of operations and accounts payable and accrued expenses in the statement of financial condition, is \$30,000 or six months of rent, which SNCB has accrued in anticipation of the landlord or SNCB finding a new tenant to sublet the office space within the six month period. Management of SNCB estimates that six months is a sufficient amount of time in order for the landlord or SNCB to find a new tenant. In addition, SNCB has written off its security deposit, held by the landlord, in anticipation of not receiving it back. This amount, \$23,330, is also included in the occupancy and equipment expense in the statement of operations.

SNCB Securities Inc.

Notes to Financial Statements (continued)

5. Income Taxes

Federal, state and local income tax expense consisted of the following:

	2000	1999
Current:		
Federal	\$ 16,038	\$ 11,800
State and local	<u>16,643</u>	<u>15,400</u>
Total current	<u>32,681</u>	<u>27,200</u>
Deferred:		
Federal	(12,836)	4,150
State and local	<u>(6,738)</u>	<u>5,000</u>
Total deferred	<u>(19,574)</u>	<u>9,150</u>
	<u>\$ 13,107</u>	<u>\$ 36,350</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities, primarily fixed assets and leases, for financial reporting purposes and the amounts used for income tax purposes. The net deferred tax asset is \$10,424 at December 31, 2000, which consists of a deferred tax asset of \$18,558 and a valuation allowance of \$8,134.

The difference between the Company's effective tax rate and the statutory federal income tax rate is caused by the change in the valuation allowance in 2000 and state and local taxes in 2000 and 1999.

Income taxes paid for the years ended December 31, 2000 and 1999 amounted to \$22,775 and \$17,850, respectively.

6. Savings Plan

The Company has a 401(k) savings plan for its employees. The annual expense of \$33,075 in 2000 and \$36,500 in 1999 represents its matching of eligible contributions made by participating employees. This plan was terminated as of December 31, 2000.